may be associated with video or broadband services. While such video services may produce many useful benefits, it should be made clear that the proposed high cost assistance fund mechanism is not designed to reimburse local providers for facilities needed to provide video services as well.

Clarification That The FCC Does Not Propose That State Commissions Would Be Prohibited From Using This Same Allocation Method For Allocating Intrastate Costs.

NASUCA also notes the Commission's discussion at footnote 70 which indicates that the allocations discussed above "would be used only to determine high cost assistance, and would not be used for other separations or ratemaking activities, such as determining intrastate cost allocations." Order at ¶ 51 (emphasis added). NASUCA assumes that this discussion was intended to indicate that the Commission in this Order was not intending to apply this cost allocation method for any purpose other than the allocation of costs for determining interstate high cost assistance and was specifically not attempting to force this allocation to be used for intrastate cost allocations.

Unfortunately, the terms used in the Notice indicate that this method "would not be used" for any other purpose including "intrastate cost allocations." NASUCA submits that it is entirely appropriate for this Commission to clarify that the type of allocations that it proposes in this Notice are only proposed to be used by the Federal Communications Commission for cost calculations related to interstate high cost assistance support. However, it is inappropriate for the Commission to attempt in any manner to dictate whether this same method may be used for "intrastate cost allocations."

The Communications Act generally only provides the Commission with authority over interstate services and does not allow it to determine what cost allocations either will or will not be used for intrastate cost allocations. Intrastate cost allocations remain exclusively subject to the authority of state commissions. Thus, the Commission has no authority to attempt to bar state commissions from applying the type of cost allocations proposed in the Notice if state commissions should determine through their own regulatory determinations that such an allocation would be appropriate. The FCC should clarify its discussion on this point in its final order.

C. OPTION TWO: USE PROXY FACTORS TO COMPUTE HIGH-COST ASSISTANCE.

NASUCA agrees that providing a high-cost assistance program based solely on reported costs provides no incentives for efficient operation. Notice at ¶ 55. More importantly, the prospect of high-cost assistance may have caused some LECs in the past to engage in over-investment, which would explain why companies with similar demographics have substantially differing costs.

Development of verifiable proxy factors will enable the FCC to establish targets that will reward efficiency and promote least cost engineering. Id. at ¶ 56. Fund distribution in the future should be based on proxy factors, with an appropriate transitional process to minimize adverse impact on subscribers.

NASUCA agrees that the future of universal service fund support should identify truly high cost areas, and that average loop costs are misleading where there is a mix of high cost and low cost market areas. Id. at ¶ 57. The development of a proxy factor for cost support would enable the FCC, if it chose to do so in the future, to provide support for any high cost area, regardless of which LEC provides service there.

Proxy factors, as the FCC points out, would allow for distribution of high cost funds to particular portions of those study areas that are most likely to be a target of future cost-based pricing decisions of the LECs rather than regions as a whole. Id. at ¶ 58. If we are to maintain and expand universal service in the future, then it is imperative that more precise methods for identifying such support be developed.

NASUCA's first choice of disaggregation is the wire center, rather than a census block group, because of the ready availability of distance and density factors in existing LEC data bases, as well as corresponding engineering deployment models. If the FCC chooses to implement a Census Block solution, then it should be tested, not against existing cost data bases, but against theoretical engineering models used for deployment of telephone investment. NASUCA would encourage the FCC to ensure that any model appropriately reflects both sides of the cost equation--including the savings due to density in urban areas, and the savings gained in the placement of telephone facilities in rural areas that are easily accessed by construction personnel. Any model that assumes average loop costs for deployment would probably overemphasize the cost of rural service.

The proxy approach will not, in all likelihood, be well received by those who are currently benefitting most from the existing high-cost funds. It is important for the FCC, however, to adopt procedures that will encourage all providers of local exchange service to adopt more efficient, cost-effective strategies that are reflected in affordable rates for subscribers. NASUCA suggests that the use of proxy models will encourage plant to be deployed in the most efficient means possible.

D. OPTION THREE: COMMISSION CERTIFIED STATE PLANS FOR DISTRIBUTION OF HIGH-COST ASSISTANCE.

Under this option, the FCC would continue to determine the amount of high cost assistance that would be distributed to each state. This would be done by the use of proxy factors discussed above. Id. at ¶ 77. Each state would then determine how these funds would be distributed within the state consistent with guidelines adopted by the FCC. Id. Lastly, the manner in which these funds had been distributed by the state commission would be subject to review by the FCC.

The FCC in the Notice suggests that the size of the high cost assistance fund from which the states might receive funding would be determined by the use of an index factor to control the rate of annual growth. Id. at ¶ 78. The Commission proposes that this use of an index would limit the extent to which a state could determine to modernize its network and recover that cost from any interstate high cost assistance fund. Id. Specifically, the FCC suggests that the rate of line growth could be used to limit the amount of growth allowed in the federal high cost assistance fund. Id. In the alternative, the FCC suggests limiting the growth in the fund to the growth in the consumer price index minus a productivity factor. Id.

NASUCA suggests that how the size of the high cost assistance fund should be calculated remains a concern whether these dollars are distributed to local service providers directly by the FCC or by a state commission. NASUCA has commented above concerning the manner in which proxy factors should be used to set the size of the federal high cost assistance fund. NASUCA supports the use of such proxy factors whether either the FCC or a state commission determines which local service providers in any state should receive such funds. Moreover, if the FCC were to use the less precise factors proposed in the Notice for state distributed funds, e.g. growth in the number of access lines, then much of the benefit of using a proxy factor related to an efficiently engineered network would be lost. Id. at 78. NASUCA proposes that appropriately determined proxy factors should be used to set the size of the high cost assistance fund regardless of which regulatory authority actually distributes the funds to local service provides.

The FCC in the Notice also discusses the manner in which these high cost assistance funds would then be allocated and distributed by the FCC to the states. Id. at ¶ 79. Here again, the FCC discusses using a limited number of proxy factors to determine this allocation, i.e. population density per census block and number of loops per wire center. NASUCA suggests that it would be most appropriate to be consistent in the proxy factors used both to determine the size of the high cost assistance fund and the allocation of those funds to the states. Using different criteria for each of these two different functions appears to be somewhat arbitrary and confusing.

Accordingly, NASUCA proposes that it would be logical and consistent to use the same proxy factors for each of these two functions. As NASUCA has argued above for the use of distance from the central office and customer density as appropriate proxy factors to use to determine the size of the high cost assistance fund, such factors could also logically be used to distribute these funds among the states.

The Commission next generally discusses the manner in which the states could distribute these funds among the local service providers within each state and the criteria by which the FCC should review this distribution. Id. ¶¶ 80-82. NASUCA supports the FCC suggestion that these guidelines should be general in form and not overly restrictive. Id. at ¶ 80. Notably, the FCC has proposed that the guidelines for intrastate distribution of funds should "not present de facto barriers to competition." Id. at ¶ 81. NASUCA suggests that the guidelines used to judge the acceptability of the methods by which the states may distribute these funds should be general. For example, this may require that the methods used by the states need only be consistent with the goal of making certain that the funds are distributed to local service providers that provide service in high cost areas. It is likely that whatever means are used at the state level will also be subject to some regulatory determination at the state level. The primary means of reviewing the intrastate distribution criteria should reside at the state level. Only a more general level of review at the federal level would be appropriate or necessary.

Such state flexibility in the distribution method would be appropriate as states may determine that their intrastate distribution of funds should respond to the particular needs of state local service providers and consumers. NASUCA also notes that many states are presently proceeding with cost allocation or universal service proceedings which are determining state cost criteria to determine which local service providers are most in need of assistance. By using state plans to distribute these funds, the distribution of federal high cost assistance could benefit from these state determinations.

CONCLUSION

NASUCA requests that the Commission consider and adopt these Comments in the Final Order issued.

Respectfully submitted,

NATIONAL ASSOCIATION OF STATE
UTILITY CONSUMER ADVOCATES

By: ______________________
Ronald J. Binz
Director, Colorado
Office of Consumer Counsel

By: ______________________
Philip F. McClelland
Assistant Consumer Advocate
Pennsylvania Office of
Consumer Advocate

On behalf of:
NASUCA
1133 15th Street, N.W., Suite 575
Washington, DC 20005
(202) 727-3908

CERTIFICATE OF SERVICE

I, Mary Gubisch, hereby certify that copies of the foregoing "Comments of the National Association of State Utility Consumer Advocates (NASUCA)" have been mailed by first class United States mail, postage prepaid, on the 12th day of April, 1996, to all parties of record as shown on the attached list.

Mary Gubisch

Mary Gubisch
Assistant Director
National Association of State Utility
Consumer Advocates (NASUCA)

Attachment: Service List

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W. -- Room 814
Washington, D.C. 20554

The Honorable Andrew C. Barrett, Commissioner
Federal Communications Commission
1919 M Street, N.W. -- Room 826
Washington, D.C. 20554

The Honorable Susan Ness, Commissioner
Federal Communications Commission
1919 M Street, N.W. -- Room 832
Washington, D.C. 20554

The Honorable Julia Johnson, Commissioner
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

The Honorable Kenneth McClure, Vice Chairman
Missouri Public Service Commission
301 W. High Street, Suite 530
Jefferson City, MO 65102

The Honorable Sharon L. Nelson, Chairman
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

The Honorable Laska Schoenfelder, Commissioner
South Dakota Public Utilities Commission
500 E. Capital Avenue
Pierre, SD 57501

Martha S. Hogerty
Public Counsel for the State of Missouri
P.O. Box 7800
Harry S. Truman Building, Room 250

Jefferson City, MO 65102

Deborah Dupont, Federal Staff Chair
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Paul E. Pederson, State Staff Chair
Missouri Public Service Commission
P.O. Box 360
Truman State Office Building
Jefferson City, MO 65102

Eileen Benner
Idaho Public Utilities Commission
P.O. Box 83720
Boise, ID 83720-0074

Charles Bolle
South Dakota Public Utilities Commission
State Capital, 500 E. Capital Avenue
Pierre, SD 57501-5070

William Howden
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

Lorraine Kenyon
Alaska Public Utilities Commission
1016 West Sixth Avenue, Suite 400
Anchorage, AK 99501

Debra M. Kriete
Pennsylvania Public Utilities Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Clara Kuehn
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0850

Samuel Loudenslager
Arkansas Public Service Commission
P.O. Box 400
Little Rock, AR 72203-0400

Sandra Makeeff
Iowa Utilities Board
Lucas State Office Building
Des Moines, IA 50319

Philip F. McClelland
Pennsylvania Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, Pennsylvania 17120

Michael A. McRae
D.C. Office of the People's Counsel
1133 15th Street, N.W. -- Suite 500
Washington, D.C. 20005

Rafi Mohammed
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

Terry Monroe
New York Public Service Commission
Three Empire Plaza
Albany, NY 12223

Andrew Mulitz
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Mark Nadel
Federal Communications Commission
1919 M Street, N.W., Room 542
Washington, D.C. 20554

Gary Oddi
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Teresa Pitts
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Jeanine Poltronieri
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

James Bradford Ramsay
National Association of Regulatory Utility Commissioners
1201 Constitution Avenue, N.W.
Washington, D.C. 20423

Jonathan Reel
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Brian Roberts
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Gary Seigel
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

Pamela Szymczak
Federal Communications Commission
2000 L Street, N.W., Suite 257

Washington, D.C. 20036

Whiting Thayer
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

Deborah S. Waldbaum
Colorado Office of Consumer Counsel
1580 Logan Street, Suite 610
Denver, Colorado 80203

Alex Belinfante
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Larry Povich
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554